STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony of the

Connecticut Insurance Department

Before

The Insurance and Real Estate Committee

March 12, 2015

Raised Bill No. 6920: AN ACT CONCERNING REVISIONS TO THE PROPERTY AND CASUALTY INSURANCE STATUTES.

Chairmen Crisco and Megna, Ranking Members Kelly and Sampson, and Members of the Committee, the Insurance Department appreciates the opportunity to submit written testimony on Raised Bill No 6920 and outline in detail our opposition to the legislation.

Contrary to its intent, HB 6920 may cause significant harm to consumers by significantly restricting the homeowner marketplace in the state. There are several provisions in this bill that if enacted will likely serve as a catalyst that could ultimately lead to the erosion of our robust, competitive market. Consequently, consumers could be left with far fewer choices from traditional carriers and may in the end be limited to a choice of products from the non-admitted and residual markets.

There are a number of provisions in this bill which were the result of good intentions but will have unintended effects on the competitive marketplace for homeowners insurance by impacting both affordability and availability in Connecticut.

The Department is most concerned with the following provisions:

Hurricane Deductibles (Section 4)
Section 4 would prohibit insurers from using mandatory hurricane deductibles along the coast. This change will directly conflict with section 38a-316a which currently permits hurricane deductibles. The Department is unclear of the specific intent of this proposed deductible limitation. Today industry uses the hurricane deductible as a means to share loss with the consumer and encourage mitigation to minimize that loss. These deductibles also help lower the homeowner's premium while also lowering the company's probable maximum loss (PML) exposure. By being able to lower the PML a company can continue to write business in the state. Further this also enables the company to secure reinsurance at lower cost as well as ensure that its AM Best ratings remain strong.

If the hurricane deductible is not permitted in the state, companies will be left with two options:

- Significantly increase rates, or
- Withdraw from the market should they deem the risk and the cost of capital to be too great

The Insurance Department urges the Committee to promote a competitive and financially sound insurance market for consumers. Legislation such as HB 6920, when combined with other recently enacted legislation – such as PA 14-175 (prohibiting insurers from requiring residents along the immediate shoreline to have plywood storm shutters as a minimum standard for wind mitigation) – will further destabilize the coastal homeowners insurance marketplace in Connecticut, and make it unattractive for insurers to actively compete for business. Indeed, the Department has heard from one large carrier that it fully intends to withdraw from Connecticut should the latest bill – HB 6920 – become law. Another company, which is considering entering our state, has advised the Department that it will not do so should this bill become law.

Connecticut is not an outlier. There are **19 states that allow minimum hurricane deductibles:** Alabama, Connecticut, Delaware, Florida, Georgia, Hawaii, Louisiana, Maine, Maryland, Massachusetts, Mississippi, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Texas, Virginia and the District of Columbia Washington DC.

Territorial Classifications (Section 2)

Section 2 of the bill (lines 289-291) prohibits rating plans for homeowners insurance from using a territorial classification smaller than a zip code. Today some companies rate based on a property's distance to the shore by banding the coast into several bands 500-1000 feet, 1001-1,500 feet and 1,501-2,000 feet, etc. Banding within a zip code enables companies to price those properties with the greatest risk to the hurricane wind exposure. By removing this capability H.B. 6920 would require that ALL residents in a zip code to bear a portion of the insurance burden of those properties closer to the shore. There are many coastal zip codes that extend many miles inland (East Haven, Branford, Guilford and Madison are only a few examples) which will now significantly impact those homeowners with potentially significant rate increases. This requirement will also impact towns not on the coast as the companies will now have spread the rates further inland to adjust for the exposures, and their increased PML increase.

Minimum Coverage/Deductibles (Section 4) and Elimination of Coinsurance (Section 5)

This bill prohibits the use of minimum deductibles on homeowners insurance and eliminates the Coinsurance clause, the Department previously provided testimony regarding the importance of the Coinsurance clause under HB-6865 and we are in favor of a notification requirement.

Minimum Coverages

The Department does not understand the intent or necessity of this provision. Eligibility and rate making in the standard Homeowners insurance market are heavily predicated on minimum coverages. In addition, the Department questions the term "coverage" (line 328) and the potential for erroneous interpretations. Broad reference to the term coverage leaves a very open interpretation with effects not only on dwelling coverage and calculated replacement cost but also personal property and liability coverage as well. The Department opposes this provision, in part because it is only applicable to Homeowners insurance. Minimum coverages are an integral part of multiple lines of insurance and eliminating its use in Homeowners only is not only unfair, but conflicts with the standard eligibility and ratemaking processes that have existed for years.

Minimum Deductibles

Deductibles are an important way to reduce the overall cost of insurance to the insured. Deductibles permit the company and policyholder to share the loss. Higher deductibles help cut down on the number of nuisance claims and may motivate the insured to take steps to mitigate potential loss. Companies also have used higher deductibles at times as a risk management tool, to retain an account or to write a new account. This bill would remove the ability of companies from doing this which in many instances will leave them with no alternative but to nonrenew the risk. Furthermore, the Department seeks to understand why Homeowners insurance should become one of the only types of insurance, Personal and Commercial, which would not require some sort of minimum deductible.

Residual Market procurement: (Section 3)
The Department believes the Surplus Lines market provides a valuable alternative market for Connecticut homeowners to secure broad homeowners coverage. The Department believes the proposed change in Section 3, in effect, reflects what may be current market practices since residual market or FAIR Plan products do not provide the sorts of broader coverages found in many surplus lines homeowners' products.

These are only a few of the highlighted concerns identified by the Department. Lastly, should this legislation move forward it will create significant additional workload for the Department as the change would require insurers to re-file all property forms, rate and rules as well as underwriting guidelines. The Department anticipates it could expect to see 1,000 or more additional filings submitted for the personal lines property business alone. Additional professional and administrative staff and resources would likely be needed should this legislation become law.

The Department recognizes and appreciates that the intent of this bill is to help Connecticut homeowners by removing what some consider a burdensome requirements. But in reality, those good intentions will most definitely have the unintended and harmful consequences of affecting affordability and availability. As an agency with a prime mission of consumer protection and industry financial solvency, the Department encourages the Committee to not give H.B. 6920 a Joint Favorable Report.